

MOUNT AYR COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2012

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**Mount Ayr Community School District
Board of Education and School District Officials
Year Ended June 30, 2012**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2011 Election)		
Rodney Shields	President	2013
James Uhlenkamp	Vice President	2012
Patricia West	Board Member	2012
Duane Shafer	Board Member	2013
Brandi Shay	Board Member	2015
(After September 2011 Election)		
Rodney Shields	President	2013
Patricia West	Vice President	2015
Duane Shafer	Board Member	2013
Brandi Shay	Board Member	2015
Chris Eaton	Board Member	2015
School District Officials		
Joe Drake	Superintendent	2012
Janette Campbell	District Secretary/Treasurer	2012
Ahlers & Cooney	Attorney	Indefinite



Independent Auditor's Report

To the Board of Education
Mount Ayr Community School District
Mount Ayr, Iowa

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Mount Ayr Community School District, Mount Ayr, Iowa as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Mount Ayr Community School District at June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated January 7, 2013, on our consideration of the Mount Ayr Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 13 and 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mount Ayr Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the ten years ended June 30, 2011, (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 10, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

January 7, 2013

The Mount Ayr Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

General Fund revenues decreased from \$7,279,056 in fiscal 2011 to \$7,273,726 in fiscal 2012. General Fund expenditures increased from \$6,928,699 in fiscal 2011 to \$6,994,901 in fiscal 2012. The District's General Fund balance increased from \$723,534 in fiscal 2011 to \$1,031,446 in fiscal 2012.

The decrease in General Fund revenues is so slight that there is no major reason to attribute it to. The increase in expenditures was due primarily to the purchase of the one-to-one laptops for approximately \$200,000. Had it not been for this purpose, our expenditures would have been significantly less than the previous year's.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the Mount Ayr Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Mount Ayr Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Mount Ayr Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

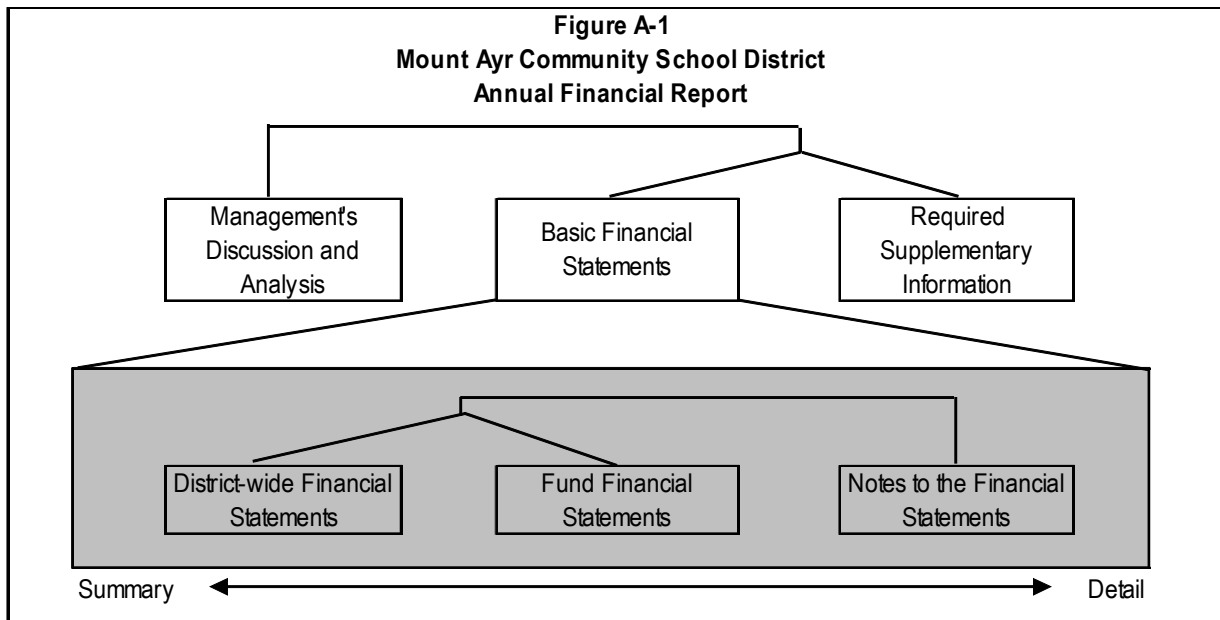


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the District-Wide and Fund Financial Statements				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and student construction	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

Governmental activities: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.

Business type activities: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and the Student Construction Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.

Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2012 compared to June 30, 2011.

Figure A-3							
Condensed Statement of Net Assets							
	Governmental activities		Business type		Total		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-2012
Current assets	\$ 6,614,314	6,008,731	62,655	75,337	6,676,969	6,084,068	9.7%
Capital assets, net	14,163,494	14,653,704	47,775	50,173	14,211,269	14,703,877	-3.4%
Other noncurrent assets	67,272	71,401	-	-	67,272	71,401	-5.8%
Total assets	20,845,080	20,733,836	110,430	125,510	20,955,510	20,859,346	0.5%
Current liabilities	5,449,914	5,038,931	34,801	28,910	5,484,715	5,067,841	8.2%
Long-term liabilities	7,861,573	8,331,203	-	-	7,861,573	8,331,203	-5.6%
Total liabilities	13,311,487	13,370,134	34,801	28,910	13,346,288	13,399,044	-0.4%
Net assets:							
Invested in capital assets, net of related debt	5,928,494	6,009,633	47,775	50,173	5,976,269	6,059,806	-1.4%
Restricted	712,101	791,063	-	-	712,101	791,063	-10.0%
Unrestricted	892,998	563,006	27,854	46,427	920,852	609,433	51.1%
Total net assets	\$ 7,533,593	7,363,702	75,629	96,600	7,609,222	7,460,302	2.0%

The District's combined net assets increased by nearly 2.0%, or approximately \$148,620 over the prior year. The largest portion of the District's net assets is invested in capital assets, e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$78,962, or 10.0% over the prior year. The decrease was primarily a result of the ongoing building projects in the Capital Projects Fund. This has resulted in a smaller fund balance for the Capital Projects Fund. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations without constraints by debt covenants, enabling legislation or other legal requirements) increased approximately \$311,419 or 51.1%.

**Mount Ayr Community School District
Management's Discussion and Analysis
Year ended June 30, 2012**

Figure A-4 shows the change in net assets for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-4 Changes in Net Assets							
	Governmental Activities		Business type Activities		Total District		Total Change
	Year ended June 30,		Year ended June 30,		Year ended June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-2012
Revenues:							
Program revenues:							
Charges for service and sales	\$ 848,517	784,290	171,971	184,721	1,020,488	969,011	5.3%
Operating grants, contributions and restricted interest	1,422,613	1,916,972	229,383	209,785	1,651,996	2,126,757	-22.3%
General revenues:							
Property tax	3,617,651	3,385,998	-	-	3,617,651	3,385,998	6.8%
Statewide sales, services and use tax	539,660	387,076	-	-	539,660	387,076	39.4%
Unrestricted states grants	2,648,199	2,486,931	-	-	2,648,199	2,486,931	6.5%
Unrestricted investment earnings	11,766	10,493	-	-	11,766	10,493	12.1%
Other	97,672	240,175	-	-	97,672	240,175	-59.3%
Total revenues	9,186,078	9,211,935	401,354	394,506	9,587,432	9,606,441	-0.2%
Program expenses:							
Governmental activities:							
Instruction	5,277,988	5,324,072	-	-	5,277,988	5,324,072	-0.9%
Support services	2,584,052	2,346,248	-	-	2,584,052	2,346,248	10.1%
Non-instructional programs	18,937	14,961	422,325	382,566	441,262	397,527	11.0%
Other expenses	1,135,210	1,306,615	-	-	1,135,210	1,306,615	-13.1%
Total expenses	9,016,187	8,991,896	422,325	382,566	9,438,512	9,374,462	0.7%
Change in net assets	169,891	220,039	(20,971)	11,940	148,920	231,979	182.5%
Net assets beginning of year	7,363,702	7,143,663	96,600	84,660	7,460,302	7,228,323	3.2%
Net assets end of year	\$ 7,533,593	7,363,702	75,629	96,600	7,609,222	7,460,302	2.0%

In fiscal year 2012, property tax and unrestricted state grants account for 68.21% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 87.20% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$9,186,078 and expenses were \$9,016,187.

The cost financed by users of the District's programs was \$848,517.

Federal and state governments subsidized certain programs with grants and contributions totaling \$1,422,613.

The net cost of governmental activities was financed with \$4,157,311 in property and other taxes and \$2,648,199 in unrestricted state grant.

Business Type Activities

Revenues for business type activities were \$401,354 and expenses were \$422,325. The District's business type activities include the School Nutrition Fund and Student Construction Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

**Mount Ayr Community School District
Management's Discussion and Analysis
Year ended June 30, 2012**

The district increased meal prices in 2011-2012. This increase has resulted in increased revenue to the School Nutrition Fund which the District will utilize in the future to offset the rising costs of food and labor.

The following table (Figure A-5) presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-5						
Total and Net Cost of Governmental Activities						
	Total Cost of Services		Change	Net Cost of Services		Change
	2012	2011		2012	2011	
Instruction	\$ 5,277,988	5,324,072	-0.9%	\$3,393,940	3,422,044	-0.8%
Support services	2,584,052	2,346,248	10.1%	2,584,052	2,346,248	10.1%
Non-instructional programs	18,937	14,961	26.6%	18,937	14,961	26.6%
Other expenses	1,135,210	1,306,615	-13.1%	748,128	507,381	47.4%
Totals	\$ 9,016,187	8,991,896	0.3%	\$6,745,057	6,290,634	7.2%

INDIVIDUAL FUND ANALYSIS

As previously noted, the Mount Ayr Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,420,818, under last year's ending fund balances of \$1,862,149. The primary reason for the decrease in combined fund balances in fiscal 2012 is due the monies being spent for the one-to-one laptops and the ongoing building maintenance projects that are being paid out of the Capital Projects Fund.

Governmental Fund Highlights

The District's General Fund financial position has strengthened compared to the 2010-2011 school year. The General Fund balance increased from \$723,534 in 2010-2011 to \$1,031,446 in 2011-2012. By implementing budget cuts and increasing revenues through property taxes, the district was able to end the 2011-2012 fiscal year with a positive balance.

The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$ -28,616 in fiscal 2011 to \$ 22,236 in fiscal 2012. The District levied for the PPEL Fund and did not use any of those funds. The district is building up the balance in the PPEL Fund to help with the purchase of a new school bus. There was a net change in fund balance of \$50,852.

The Capital Projects Fund balance increased from \$433,232 in 2011 to \$452,998 in 2012.

Proprietary Fund Highlights

Proprietary Fund net assets decreased from \$96,600 at June 30, 2011 to \$75,629 at June 30, 2012, representing a decrease of approximately 21.71%. As previously noted, the District increased meal prices in 2011-2012 but with rising costs in food and labor, we are experiencing a decrease in the cash balance.

BUDGETARY HIGHLIGHTS

The District's receipts were \$9,569,982 which was \$451,934 more than budgeted receipts. The most significant variance resulted from the revenue through grants.

Total expenditures were \$622,168 less than budgeted, due primarily to the fact that the District budgets to spend 100% of its revenue and carryover balance. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Funds. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had invested \$14.21 million, net of accumulated depreciation in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 3.4% from last year.

Figure A-6 Capital Assets, net of Depreciation							
	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-2012
Land	\$ 145,185	145,185	-	-	145,185	145,185	0.0%
Buildings	13,113,916	13,471,279	-	-	13,113,916	13,471,279	-2.7%
Improvements other than buildings	111,354	118,241	-	-	111,354	118,241	-5.8%
Furniture and equipment	793,039	918,999	47,775	50,173	840,814	969,172	-13.2%
Totals	\$ 14,163,494	14,653,704	47,775	50,173	14,211,269	14,703,877	-3.4%

Long-Term Debt

At June 30, 2012, the district had \$8,235,000 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of approximately 4.7% from last year. (See Figure A-7).

Figure A-7 Outstanding Long-Term Obligations			
	Total District		Total Change
	June 30,		June 30,
	2012	2011	2011-2012
General obligation bonds	\$ 5,760,000	6,010,000	-4.2%
Revenue bonds	2,475,000	2,620,000	-5.5%
Capital loan notes	-	14,071	-100.0%
Totals	\$ 8,235,000	8,644,071	-4.7%

On October 1, 2001 the District authorized Energy Management Improvement Capital Loan Notes in the amount of \$225,000 bearing interest and maturing each year until December 1, 2011. In March of 2008, the District approved General Obligation School Bonds in the amount of \$6,700,000 and maturing each year until May 1, 2028. In September of 2009, the District passed School Infrastructure Sales, Services, and Use Tax Revenue Bonds in the amount of \$2,885,000. Those bonds will mature each year until July 1, 2029.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

The district added a middle school gymnasium and locker rooms to the secondary facility and replaced the 1936 elementary building with new classrooms, lunchroom, multi-purpose facility and office space. The \$6.7 million dollar increased the levy \$2.84 per thousand for the twenty year bond. Originally, the board of directors was committed to abate the levy with 50% of SILO funds collected (\$150,000) to lower the levy to approximately a \$1.99 per thousand. The project was completed with the Infrastructure and Use Tax Revenue Bonds of \$2,885,000. At this time, the District is in the process of refinancing the General Obligation Funds in the amount of approximately \$6,735,000 for interest cost savings and restructuring for a shorter repayment period.

The Mount Ayr Community School District's enrollment decreased slightly for the 2011-2012 school year. The district's certified enrollment took a slight increase at the time of the certified enrollment on October 1, 2012. However, the District will continue to take steps to monitor spending throughout the General Fund.

Economically, the County has been affected by the economic crisis that is affecting the state and the country. Heartland Energy has begun production of wind turbine blades and plan to expand into solar, hydrogen, biomass solutions and motion based propulsion in the future. We believe this will continue solid growth for the community, which should result in job opportunities and increased student enrollment.

The Board of Directors approved the .34¢ PPEL levy for the 2012-2013 school year but is committed in keeping property taxes as low as possible.

The districts valuations increased from \$220,183,655 to \$221,617,239 for the 2012-2013 school year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Janette Campbell, District Secretary/Treasurer and Business Manager, Mount Ayr Community School District, 1001 East Columbus Street, Mount Ayr, IA 50854.

Basic Financial Statements

Mount Ayr Community School District
Statement of Net Assets
June 30, 2012

	Governmental Activities	Business Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 2,290,372	39,068	2,329,440
Receivables:			
Property tax:			
Delinquent	54,748	-	54,748
Succeeding year	3,451,338	-	3,451,338
Accounts	79,433	-	79,433
Due from other governments	738,423	4,287	742,710
Inventories	-	19,300	19,300
Total current assets	6,614,314	62,655	6,676,969
Noncurrent assets:			
Bond issuance costs	34,517	-	34,517
Bond discount	32,755	-	32,755
Capital assets:			
Capital assets - nondepreciable	145,185	-	145,185
Capital assets - depreciable, net	14,018,309	47,775	14,066,084
Total non current assets	14,230,766	47,775	14,278,541
Total assets	\$ 20,845,080	110,430	20,955,510
Liabilities			
Current liabilities:			
Accounts payable	\$ 582,548	4,602	587,150
Salaries and benefits payable	603,045	30,199	633,244
Due to other governments	73,673	-	73,673
Accrued interest payable	41,373	-	41,373
Deferred revenue:			
Succeeding year property tax	3,451,338	-	3,451,338
Other	128,027	-	128,027
General obligation bonds	260,000	-	260,000
Revenue bonds	165,000	-	165,000
Early retirement	144,910	-	144,910
Total current liabilities	5,449,914	34,801	5,484,715
Noncurrent liabilities:			
General obligation bonds	5,500,000	-	5,500,000
Revenue bonds	2,310,000	-	2,310,000
Early retirement	51,573	-	51,573
Total noncurrent liabilities	7,861,573	-	7,861,573
Total liabilities	13,311,487	34,801	13,346,288

Exhibit A

Mount Ayr Community School District
Statement of Net Assets
June 30, 2012

	Governmental Activities	Business Type Activities	Total
Net assets			
Invested in capital assets, net of related debt	5,928,494	47,775	5,976,269
Restricted for:			
Categorical funding	205,765	-	205,765
Management levy purposes	(28,509)	-	(28,509)
Student activities	123,653	-	123,653
Debt service	221,925	-	221,925
Capital projects	189,267	-	189,267
Unrestricted	892,998	27,854	920,852
Total net assets	7,533,593	75,629	7,609,222
 Total liabilities and net assets	 \$ 20,845,080	 110,430	 20,955,510

See notes to financial statements.

Mount Ayr Community School District
Statement of Activities
Year ended June 30, 2012

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities:						
Instruction:						
Regular	\$ 2,922,334	360,863	697,589	(1,863,882)	-	(1,863,882)
Special	1,235,104	114,543	283,516	(837,045)	-	(837,045)
Other	1,120,550	373,111	54,426	(693,013)	-	(693,013)
	<u>5,277,988</u>	<u>848,517</u>	<u>1,035,531</u>	<u>(3,393,940)</u>	<u>-</u>	<u>(3,393,940)</u>
Support Services:						
Student	258,007	-	-	(258,007)	-	(258,007)
Instructional staff	433,901	-	-	(433,901)	-	(433,901)
Administration	733,416	-	-	(733,416)	-	(733,416)
Operating and maintenance of plant	671,177	-	-	(671,177)	-	(671,177)
Transportation	487,551	-	-	(487,551)	-	(487,551)
	<u>2,584,052</u>	<u>-</u>	<u>-</u>	<u>(2,584,052)</u>	<u>-</u>	<u>(2,584,052)</u>
Non-instructional programs	<u>18,937</u>	<u>-</u>	<u>-</u>	<u>(18,937)</u>	<u>-</u>	<u>(18,937)</u>
Other expenditures:						
Facilities acquisition	518,280	-	153,789	(364,491)	-	(364,491)
Long-term debt interest	369,846	-	-	(369,846)	-	(369,846)
AEA flowthrough	233,293	-	233,293	-	-	-
Depreciation (unallocated)*	13,791	-	-	(13,791)	-	(13,791)
	<u>1,135,210</u>	<u>-</u>	<u>387,082</u>	<u>(748,128)</u>	<u>-</u>	<u>(748,128)</u>
Total governmental activities	<u>9,016,187</u>	<u>848,517</u>	<u>1,422,613</u>	<u>(6,745,057)</u>	<u>-</u>	<u>(6,745,057)</u>
Business type activities:						
Non-instructional programs:						
Nutrition services	422,325	171,971	229,383	-	(20,971)	(20,971)
Total business type activities	<u>422,325</u>	<u>171,971</u>	<u>229,383</u>	<u>-</u>	<u>(20,971)</u>	<u>(20,971)</u>
Total primary government	<u>\$ 9,438,512</u>	<u>1,020,488</u>	<u>1,651,996</u>	<u>(6,745,057)</u>	<u>(20,971)</u>	<u>(6,766,028)</u>

Exhibit B

Mount Ayr Community School District
Statement of Activities
Year ended June 30, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Operating Grants, Contributions					
	Expenses	Charges for Service	and Restricted Interest	Governmental Activities	Business Type Activities	Total
Totals from previous pages	\$ 9,438,512	1,020,488	1,651,996	(6,745,057)	(20,971)	(6,766,028)
General revenues:						
Property tax levied for:						
General purposes				3,035,602	-	3,035,602
Debt service				512,549	-	512,549
Capital outlay				69,500	-	69,500
Statewide sales, services and use tax				539,660	-	539,660
Unrestricted state grants				2,648,199	-	2,648,199
Contributions not restricted to specific programs				19,543	-	19,543
Unrestricted investment earnings				11,766	-	11,766
Gain on sale of capital assets				17,450	-	17,450
Other				60,679	-	60,679
Total general revenues				6,914,948	-	6,914,948
Change in net assets				169,891	(20,971)	148,920
Net assets beginning of year				7,363,702	96,600	7,460,302
Net assets end of year				\$ 7,533,593	75,629	7,609,222

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

Mount Ayr Community School District
Balance Sheet
Governmental Funds
June 30, 2012

	General	Debt Service	Capital Projects	Non-major Governmental	Total
Assets					
Cash and pooled investments	\$ 1,472,379	-	518,477	299,471	2,290,327
Receivables:					
Property tax:					
Delinquent	43,471	7,816	1,094	2,367	54,748
Succeeding year	2,624,465	508,740	73,134	244,999	3,451,338
Accounts	7,990	21,112	-	50,331	79,433
Due from other governments	402,466	-	335,957	-	738,423
Total assets	\$ 4,550,771	537,668	928,662	597,168	6,614,269
Liabilities and Fund Balances					
Liabilities:					
Excess of outstanding warrants over balance	\$ -	-	-	-	-
Accounts payable	90,115	29,361	402,530	60,542	582,548
Salaries and benefits payable	603,045	-	-	-	603,045
Due to other governments	73,673	-	-	-	73,673
Deferred revenue:					
Succeeding year property tax	2,624,465	508,740	73,134	244,999	3,451,338
Other	128,027	-	-	-	128,027
Total liabilities	3,519,325	538,101	475,664	305,541	4,838,631
Fund balances:					
Restricted for:					
Categorical funding	205,765	-	-	-	205,765
Debt service	-	-	263,731	-	263,731
Management levy purposes	-	-	-	167,974	167,974
Student activities	-	-	-	123,653	123,653
School infrastructure	-	-	167,031	-	167,031
Unassigned	825,681	(433)	22,236	-	847,484
Total fund balances	1,031,446	(433)	452,998	291,627	1,775,638
Total liabilities and fund balances	\$ 4,550,771	537,668	928,662	597,168	6,614,269

See notes to financial statements.

Exhibit D

**Mount Ayr Community School District
Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Assets
June 30, 2012**

Total fund balances of governmental funds (Exhibit C)	\$ 1,775,638
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***Amounts reported for governmental activities in the
Statement of Net Assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	14,163,494
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The Internal Service Fund is used by management to charge the costs of the District's flexible benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	45
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Long-term liabilities, including bonds and notes payable, compensated absences, other postemployment benefits and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds:

General obligation bonds	\$ (5,760,000)	
Revenue bonds	(2,475,000)	
Bond issuance cost	34,517	
Bond discount	32,755	
Accrued interest	(41,373)	
Early Retirement	(196,483)	(8,405,584)
		<hr/>

Net assets of governmental activities (Exhibit A)	\$ 7,533,593
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See notes to financial statements.

Exhibit E

Mount Ayr Community School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2012

	General	Debt Service	Capital Projects	Non-major Governmental	Total
Revenues:					
Local sources:					
Local tax	\$ 2,885,221	512,549	609,160	146,129	4,153,059
Tuition	409,907	-	-	-	409,907
Other	135,989	16	53	397,201	533,259
Intermediate sources	22,817	-	75,703	-	98,520
State sources	3,354,586	232	17,611	70	3,372,499
Federal sources	465,206	-	136,178	-	601,384
Total revenues	7,273,726	512,797	838,705	543,400	9,168,628
Expenditures:					
Current:					
Instruction:					
Regular	2,443,779	-	-	32,355	2,476,134
Special	1,225,910	-	-	-	1,225,910
Other	725,816	-	-	376,346	1,102,162
	4,395,505	-	-	408,701	4,804,206
Support services:					
Student	253,410	-	-	-	253,410
Instructional staff	429,304	-	-	-	429,304
Administration	652,798	1,250	894	72,836	727,778
Operation and maintenance of plant	621,247	-	4,995	27,993	654,235
Transportation	409,344	-	-	9,393	418,737
	2,366,103	1,250	5,889	110,222	2,483,464
Other expenditures:					
Facilities acquisition	-	-	545,317	-	545,317
Long-term debt:					
Principal	-	409,071	-	-	409,071
Interest and fiscal charges	-	367,544	-	-	367,544
AEA flowthrough	233,293	-	-	-	233,293
	233,293	776,615	545,317	-	1,555,225
Total expenditures	6,994,901	777,865	551,206	518,923	8,842,895
Excess (deficiency) of revenues over (under) expenditures	278,825	(265,068)	287,499	24,477	325,733
Other financing sources:					
Operating transfers in	-	267,733	81	-	267,814
Operating transfers out	-	-	(267,814)	-	(267,814)
Sale of equipment	29,087	-	-	-	29,087
Total other financing sources (uses)	29,087	267,733	(267,733)	-	29,087
Net change in fund balances	307,912	2,665	19,766	24,477	354,820
Fund balances beginning of year	723,534	(3,098)	433,232	267,150	1,420,818
Fund balances end of year	\$ 1,031,446	(433)	452,998	291,627	1,775,638

See notes to financial statements.

Exhibit F

Mount Ayr Community School District
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds to the Statement of Activities
Year ended June 30, 2012

Net change in fund balances - total governmental funds (Exhibit E)	\$	354,820
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Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 27,037	
Depreciation expense	<u>(505,610)</u>	(478,573)

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. The gain on disposition of capital assets and the proceeds from disposition are as follows:

Gain on disposition of capital assets	17,450	
Proceeds from the disposition	<u>(29,087)</u>	(11,637)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Also, governmental funds report the effect of issuance costs and premiums, whereas these amounts are deferred in and amortized in the Statement of Activities. Current year items are as follows:

Repayments of bond and note principal	409,071	
Amortization of premiums and bond issuance costs	<u>(4,129)</u>	404,942

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

1,827

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Early retirement	<u>(100,280)</u>	(100,280)
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The change in net assets of the Internal Service Funds represent an undercharge to the governmental funds served and, therefore, increases expenses in the Statement of Activities.

(1,208)

Change in net assets of governmental activities (Exhibit B)	\$	<u><u>169,891</u></u>
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See notes to financial statements.

Exhibit G

Mount Ayr Community School District
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Business Type Activities Non-major Enterprise Fund	Governmental Activities Internal Services Fund
Assets		
Current assets:		
Cash and investments	\$ 39,068	45
Intergovernmental accounts receivable	4,287	-
Inventories	19,300	-
Total current assets	62,655	45
Non-current assets:		
Property and equipment:		
Machinery and equipment	291,117	-
Accumulated depreciation	(243,342)	-
Total non-current assets	47,775	-
Total assets	\$ 110,430	45
Liabilities		
Current liabilities:		
Accounts payable	\$ 4,602	-
Salaries and benefits payable	30,199	-
Total current liabilities	34,801	-
Total liabilities	34,801	-
Net Assets		
Invested in capital assets, net of related debt	47,775	-
Unrestricted	27,854	45
Total net assets	75,629	45
Total liabilities and net assets	\$ 110,430	45

See notes to financial statements.

Exhibit H

Mount Ayr Community School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year ended June 30, 2012

	Business Type Activities Non-major Enterprise Fund	Governmental Activities Internal Services Fund
Operating revenues:		
Local sources:		
Charges for services	\$ 171,971	-
Operating expenses:		
Instructional programs:		
Support services:		
Instructional staff:		
Supplies	-	221
Administration		
Services	-	987
	-	1,208
Non-instructional programs:		
Food service operations:		
Depreciation	2,398	-
Other	419,927	-
	422,325	-
Total operating expenses	422,325	1,208
Operating loss	(250,354)	(1,208)
Non-operating revenues:		
Contributions	-	-
State sources	3,768	-
Federal sources	225,615	-
Total non-operating revenues	229,383	-
Net income (loss)	(20,971)	(1,208)
Net assets beginning of year	96,600	1,253
Net assets end of year	\$ 75,629	45

See notes to financial statements.

Exhibit I

Mount Ayr Community School District
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2012

	Business Type Activities Non-major Enterprise Fund	Governmental Activities Internal Services Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 163,778	-
Cash received from miscellaneous operating activities	3,906	-
Cash paid to employees for services	(166,682)	-
Cash paid to suppliers for goods or services	(214,276)	(1,398)
Net cash provided (used) by operating activities	(213,274)	(1,398)
Cash flows from non-capital financing activities:		
Contributions - operating	-	-
State grants received	3,768	-
Federal grants received	196,128	-
Net cash provided by non-capital financing activities	199,896	-
Cash flows from capital and related financing activities:		
Acquisition of capital assets	-	-
Net cash provided by capital and related financing activities	-	-
Net increase in cash and cash equivalents	(13,378)	(1,398)
Cash and cash equivalents at beginning of year	52,446	1,443
Cash and cash equivalents at end of year	\$ 39,068	45
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (250,354)	(1,208)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Commodities used	29,487	-
(Increase) in accounts receivable	(4,287)	-
Depreciation	2,398	-
Decrease in inventories	3,591	-
Increase (Decrease) in accounts payable	(19,476)	(190)
Increase in salaries and benefits payable	25,367	-
Net cash provided (used) by operating activities	\$ (213,274)	(1,398)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:		
Current assets:		
Cash	\$ 39,068	45
Cash and cash equivalents at year end	\$ 39,068	45

Non-cash investing, capital and financing activities:

During the year ended June 30, 2012, the District received federal commodities valued at \$29,487.

See notes to financial statements.

Exhibit J

**Mount Ayr Community School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012**

	<u>Expendable Trust Funds</u> <u>Memorial Fund</u>
Assets	
Cash and investments	<u>\$ 999</u>
Total assets	<u>999</u>
Net assets	
Held in trust for special purposes	<u><u>\$ 999</u></u>

See notes to financial statements.

Exhibit K

Mount Ayr Community School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	<u>Expendable Trust Funds</u> <u>Memorial Fund</u>
Additions	\$ -
Deductions	<u>900</u>
Change in net assets	(900)
Net assets beginning of year	<u>1,899</u>
Net assets end of year	<u><u>\$ 999</u></u>

See notes to financial statements.

(1) **Summary of Significant Accounting Policies**

The Mount Ayr Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Mount Ayr, Iowa, and the predominate agricultural territories in Ringgold and Taylor Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Mount Ayr Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Mount Ayr Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Ringgold County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

Fund accounting - The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balance/net assets, revenues and expenditures or expenses, as appropriate. The District has the following funds:

Governmental Fund Types: Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General Fund: The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

Debt Service Fund: The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the District's general long-term debt.

Capital Projects Fund: The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The other governmental funds of the District are considered non-major and are as follows:

Special Revenue Funds: The Special Revenue Funds account for the revenue sources that are legally restricted to expenditures for specific purposes. These funds consist of the following:

Student Activity Funds: This fund accounts for transactions that occur due to student-related activities from groups and organizations such as athletic and activity events, fundraising and other extra-curricular or co-curricular activities.

Management Fund: This fund is authorized by Iowa Code Section 298.4 and accounts for transactions related to unemployment, early retirement, judgments and settlements and the cost of liability insurance as it relates to property and casualty.

Proprietary Fund Types: Proprietary fund types are used to account for the District's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position and cash flows. The following are the District's proprietary funds:

Enterprise Funds: Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the District has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the District has elected to apply all applicable Financial Accounting Standards Board (FASB) pronouncements, issued on or before November 30, 1989, except for those pronouncements which conflict with or contradict GASB pronouncements.

The following enterprise funds of the District are considered non-major:

School Nutrition Fund: This fund accounts for transactions related to the school lunch, breakfast and summer food programs authorized by Iowa Code 283A.

Student Construction Fund: This fund accounts for transactions related to construction projects performed by students for educational purposes.

Internal Service Funds: The internal service funds are used to account for goods or services provided by one department to other departments of the District on a cost reimbursement basis. The District has the following internal service fund:

Flexible Benefits: This fund accounts for transactions for certain benefits available to District employees in which the District is responsible for paying all premiums or costs specified by the employee.

Fiduciary Fund Types: Fiduciary funds account for assets held by the District in a trustee or agency capacity for the benefit of others and cannot be used to support District activities. The District has the following fiduciary fund type:

Expendable Trust Fund: These funds account for assets held by the District for special projects of the District with funds given by individuals, private organizations and other governments.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and early retirement are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

The proprietary funds of the District apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable – Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred and Unearned Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of unspent grant proceeds as well as the succeeding year's property tax receivable not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of unspent grant proceeds as well as the succeeding year's property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2012. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned – All amounts not included in other spendable classifications.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, expenditures exceeded the amounts budgeted in the non-instructional programs and other expenditures functional areas.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk: The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
Capital Projects Fund -	Capital Projects Fund -	
Other Capital Projects	Physical Plant and Equipment Levy	\$ 81
Debt Service	Capital Projects Fund - Statewide	
	Sales, Services and Use tax	253,405
Debt Service	Capital Projects Fund -	
	Physical Plant and Equipment Levy	14,328
Total		<u>\$ 267,814</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program.

Mount Ayr Community School District
Notes to Financial Statements
June 30, 2012

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2011-12A warrants is 1.2% plus the one-month LIBOR rate, adjusted daily. ISCAP advance activity in the General Fund for the year ended June 30, 2012 is as follows:

Series	Warrant Date	Final Warrant Maturity	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2011-12A	6/30/2011	6/21/2012	\$ -	50,001	50,001	-

During the year ended June 30, 2012, the District paid \$277 of interest on the ISCAP warrants.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 145,185	-	-	145,185
Total capital assets not being depreciated	145,185	-	-	145,185
Capital assets being depreciated:				
Buildings	19,106,323	-	10,001	19,096,322
Improvements other than buildings	437,424	-	-	437,424
Furniture and equipment	3,468,103	27,037	34,985	3,460,155
Total capital assets being depreciated	23,011,850	27,037	44,986	22,993,901
Less accumulated depreciation for:				
Buildings	5,635,045	353,391	6,030	5,982,406
Improvements other than buildings	319,183	6,887	-	326,070
Furniture and equipment	2,549,103	145,332	27,319	2,667,116
Total accumulated depreciation	8,503,331	505,610	33,349	8,975,592
Total capital assets being depreciated, net	14,508,519	(478,573)	11,637	14,018,309
Governmental activities capital assets, net	\$ 14,653,704	(478,573)	11,637	14,163,494
Business type activities:				
Furniture and equipment	\$ 291,117	-	-	291,117
Less accumulated depreciation	240,944	2,398	-	243,342
Business type activities capital assets, net	\$ 50,173	(2,398)	-	47,775

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular	\$ 345,699
Special	9,194
Other	18,388

Support services:

Student	4,597
Instructional staff	4,597
Administration	4,651
Operation and maintenance of plant	16,942
Transportation	68,814
Non-instructional programs	18,937

491,819

Unallocated

13,791

Total depreciation expense - governmental activities

\$ 505,610

Business type activities:

Food services

\$ 2,398

(6) Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2012 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 6,010,000	-	250,000	5,760,000	260,000
Revenue bonds	2,620,000	-	145,000	2,475,000	165,000
Capital loan notes	14,071	-	14,071	-	-
Early retirement	132,233	245,190	180,940	196,483	144,910
Total	\$ 8,776,304	245,190	590,011	8,431,483	569,910

General Obligation Bonds

Details of the District's June 30, 2012 general obligation bonded indebtedness are as follows:

Bond Issue of May 1, 2008				
Year ended June 30,	Rates	Principal	Interest	Total
2013	4.250%	\$ 260,000	248,240	508,240
2014	4.250%	270,000	237,190	507,190
2015	4.250%	280,000	225,715	505,715
2016	4.250%	295,000	213,815	508,815
2017	4.250%	305,000	201,278	506,278
2018	4.250%	320,000	188,315	508,315
2019	4.250%	330,000	174,715	504,715
2020	4.250%	345,000	160,690	505,690
2021	4.250%	360,000	146,027	506,027
2022	4.250%	375,000	130,728	505,728
2023	4.250%	390,000	114,790	504,790
2024	4.300%	410,000	98,215	508,215
2025	4.350%	425,000	80,585	505,585
2026	4.400%	445,000	62,097	507,097
2027	4.450%	465,000	42,518	507,518
2028	4.500%	485,000	21,825	506,825
Total		\$ 5,760,000	2,346,743	8,106,743

Revenue Bonds

Details of the District's June 30, 2012 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Bond Issue of September 1, 2009				
Year ended June 30,	Rates	Principal	Interest	Total
2013	3.000%	165,000	103,992	268,992
2014	3.000%	165,000	99,042	264,042
2015	3.250%	160,000	94,092	254,092
2016	3.500%	160,000	88,892	248,892
2017	3.750%	155,000	83,292	238,292
2018	4.000%	150,000	77,480	227,480
2019	4.125%	150,000	71,480	221,480
2020	4.250%	145,000	65,292	210,292
2021	4.400%	145,000	59,130	204,130
2022	4.500%	140,000	52,750	192,750
2023	4.625%	140,000	46,450	186,450
2024	4.750%	140,000	39,975	179,975
2025	5.000%	135,000	33,325	168,325
2026	5.000%	135,000	26,575	161,575
2027	5.000%	130,000	19,825	149,825
2028	5.125%	130,000	13,325	143,325
2029	5.125%	130,000	6,662	136,662
Total		\$ 2,475,000	981,579	3,456,579

The District has pledged future statewide sales, services and use tax revenues to repay the \$2,885,000 of bonds issued in September, 2009. The bonds were issued for the purpose of financing a portion of the costs of a new school. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2029. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 100% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$3,456,579. For the current year, \$145,000 of principal and \$108,342 of interest was paid on the bonds and total statewide sales, services and use tax revenues were \$539,660.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- \$263,731 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

The District complied with all of the revenue bond provisions during the year ended June 30, 2012.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$344,708, \$297,592, and \$304,192, respectively, equal to the required contributions for each year.

(8) Other Post-Employment Benefits (OPEB)

Plan Description - The District operates a retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 109 active and 16 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is purchased through an outside provider. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$	28,150
Interest on net OPEB		(1,285)
Adjustments to annual required contribution		(2,178)
Annual OPEB cost		<u>24,687</u>
Contributions made		<u>(24,687)</u>
Increase in net OPEB obligation		-
Net OPEB obligation beginning of year		<u>-</u>
Net OPEB obligation end of year	\$	<u><u>-</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the District contributed \$24,687 to the medical plan. Plan members eligible for benefits contributed \$1,885, or 36% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 28,500	177.50%	\$ (22,100)
June 30, 2011	25,450	13.16%	-
June 30, 2012	24,687	100.00%	-

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2012, the actuarial accrued liability was \$310,185, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$310,185. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,946,165, and the ratio of the UAAL to covered payroll was 7.9%. As of June 30, 2012, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2008 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumption includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 6%. The medical trend rate is reduced 0.5% each year until reaching the 6% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2008.

Projected claim costs of the medical plan are \$289 per month for retirees less than age 65 and \$300 per month for retirees who have attained age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) Termination Benefits

The District offers a voluntary early retirement plan to its full-time, certified employees. Eligible employees must be at least age fifty-four by September 1, but not more than sixty-two years of age by June 1 preceding the year of retirement and employees must have completed ten years of service to the District. Employees must complete an application and an attached letter of resignation which is required to be approved by the Board of Education.

The early retirement incentive for each eligible employee is the difference between the salary schedule base and the employee's placement on the salary schedule using the salary schedule in effect for the last year of employment and subject to a maximum of \$19,475 to \$36,000 per individual depending upon the individual's level of education and service to the District.

Early retirement benefits are paid monthly and cease when the retiree reaches the age of 65.

At June 30, 2012, the District has obligations to 15 participants with a total liability of \$196,483. Actual early retirement expenditures for the year ended June 30, 2012 totaled \$180,940.

(10) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$233,293 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(12) Subsequent Events

In December 2012, the District approved a resolution to obtain bids for approximately \$6,755,000 of General Obligation School Refunding bonds. The District will use these bond proceeds to refinance existing General Obligation bonds.

Required Supplementary Information

Mount Ayr Community School District
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances
Budget and Actual - All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts Original and Final	Final to Actual Variance- Positive (Negative)
Revenues:					
Local sources	\$ 5,096,225	171,971	5,268,196	5,083,992	184,204
Intermediate sources	98,520	-	98,520	10,000	88,520
State sources	3,372,499	3,768	3,376,267	3,414,056	(37,789)
Federal sources	601,384	225,615	826,999	610,000	216,999
Total revenues	9,168,628	401,354	9,569,982	9,118,048	451,934
Expenditures:					
Instruction	4,804,206	-	4,804,206	5,363,010	558,804
Support services	2,483,464	-	2,483,464	3,128,561	645,097
Non-instructional programs	-	422,325	422,325	350,471	(71,854)
Other expenditures	1,555,225	-	1,555,225	1,045,346	(509,879)
Total expenditures	8,842,895	422,325	9,265,220	9,887,388	622,168
Excess (deficiency) of revenues over (under) expenditures	325,733	(20,971)	304,762	(769,340)	1,074,102
Other financing sources, net	29,087	-	29,087	-	29,087
Excess (deficiency) of revenues and other financing sources over (under) expenditures	354,820	(20,971)	333,849	(769,340)	1,103,189
Balances beginning of year	1,420,818	96,600	1,517,418	769,340	748,078
Balances end of year	\$ 1,775,638	75,629	1,851,267	-	1,851,267

See accompanying independent auditor's report.

(1) Basis of Presentation

The District operates within the budget requirements for school districts as specified by state law and as prescribed by the Iowa Department of Management. Budgets are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

For the fiscal year beginning July 1, a proposed budget is adopted by the Board and filed with the County Auditor no later than April 15. The budget is certified by the County Auditor to the Department of Management.

Once adopted, the budget can be amended by the Board. The amendment must be published and a public hearing conducted prior to the amendment. Any amendments must be certified to the County Auditor no later than May 31. The proposed expenditure budget is advertised in the local newspaper, together with a notice of public hearing.

The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is the functional area for a budgeted governmental, enterprise and private purpose trust funds in total, rather than by individual fund type. Formal and legal budgetary control is based on four major classes of expenditures known as functional areas. These four functional areas are instruction, support services, non-instructional programs and other expenditures. During the year ended June 30, 2012, the District over-expended the non-instructional functional area by \$71,854 and the other expenditures functional area by \$509,879. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. Authorized expenditures cannot exceed the lesser of the certified budget plus any allowable amendments, or the authorized budget, which is the sum of the District's cost for that year plus the actual miscellaneous income received for that year plus the actual unspent balance from the preceding year. Appropriations, as adopted and amended, lapse at the end of the fiscal year.

The District is required by the Code of Iowa to budget for its share of media, education services and special education support provided through the local area education agency. The District's actual amount for this purpose totaled \$233,293 for the year ended June 30, 2012.

Mount Ayr Community School District
Schedule of Funding Progress for the Retiree Health Plan
Required Supplementary Information
Year ended June 30, 2012

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	310,185	310,185	0.0%	\$ 3,697,800	8.4%
2011	July 1, 2009	-	310,185	310,185	0.0%	3,696,096	8.4%
2012	July 1, 2009	-	310,185	310,185	0.0%	3,946,165	7.9%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress

See accompanying independent auditor's report.

Other Supplementary Information

Schedule 1

Mount Ayr Community School District
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2012

		Special Revenue		
		Management	Student Activity	Total
Assets				
Cash and pooled investments		\$ 165,607	133,864	299,471
Receivables:				
Property tax:				
Delinquent		2,367	-	2,367
Succeeding year		244,999	-	244,999
Accounts		-	50,331	50,331
Total assets		\$ 412,973	184,195	597,168
Liabilities and Fund Balances				
Liabilities:				
Accounts payable		\$ -	60,542	60,542
Deferred revenue:				
Succeeding year property tax		244,999	-	244,999
Early retirement payable		-	-	-
Total liabilities		244,999	60,542	305,541
Fund balances:				
Restricted for:				
Management levy purposes		167,974	-	167,974
Student activities		-	123,653	123,653
Total fund balances		167,974	123,653	291,627
Total liabilities and fund balances		\$ 412,973	184,195	597,168

See accompanying independent auditor's report.

Schedule 2

Mount Ayr Community School District**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances****Non-Major Governmental Funds****June 30, 2012**

	Special Revenue		
	Management	Student Activity	Total
Revenues:			
Local sources:			
Local tax	\$ 146,129	-	146,129
Other	37,460	359,741	397,201
State sources	70	-	70
Total revenues	183,659	359,741	543,400
Expenditures:			
Current:			
Instruction:			
Regular	32,355	-	32,355
Other	-	376,346	376,346
	32,355	376,346	408,701
Support Services:			
Administration	72,836	-	72,836
Operation and maintenance of plant	27,993	-	27,993
Student transportation	9,393	-	9,393
	110,222	-	110,222
Total expenditures	142,577	376,346	518,923
Excess of revenues over expenditures	41,082	(16,605)	24,477
Fund balances beginning of year	126,892	140,258	267,150
Fund balances end of year	\$ 167,974	123,653	291,627

See accompanying independent auditor's report.

Schedule 3

Mount Ayr Community School District
Combining Balance Sheet
Capital Project Accounts
June 30, 2012

	Capital Projects			
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Other Capital Projects	Total
Assets				
Cash and pooled investments	\$ 497,325	21,142	10	518,477
Receivables:				
Property tax:				
Current year delinquent	-	1,094	-	1,094
Succeeding year	-	73,134	-	73,134
Due from other governments	186,530	-	149,427	335,957
Total assets	\$ 683,855	95,370	149,437	928,662
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable	\$ 58,444	-	344,086	402,530
Due to other funds	-	-	-	-
Deferred revenue:				
Succeeding year property tax	-	73,134	-	73,134
Total liabilities	58,444	73,134	344,086	475,664
Fund balances:				
Restricted for:				
Debt service	263,731	-	-	263,731
School infrastructure	361,680	-	(194,649)	167,031
Unassigned fund balance	-	22,236	-	22,236
Total fund balances	625,411	22,236	(194,649)	452,998
Total liabilities and fund balances	\$ 683,855	95,370	149,437	928,662

See accompanying independent auditor's report.

Schedule 4

Mount Ayr Community School District
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Capital Project Accounts
Year ended June 30, 2012

	Capital Projects			Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Other Capital Projects	
Revenues:				
Local sources:				
Local tax	\$ 539,660	69,500	-	609,160
Other	53	-	-	53
Intermediate sources	75,703	-	-	75,703
State sources	-	32	17,579	17,611
Federal sources	-	-	136,178	136,178
Total revenues	615,416	69,532	153,757	838,705
Expenditures:				
Current:				
Support Services:				
Administration	894	-	-	894
Operation and maintenance of plant	4,995	-	-	4,995
Transportation	-	-	-	-
	5,889	-	-	5,889
Other expenditures:				
Facilities acquisition	192,559	4,271	348,487	545,317
Total expenditures	198,448	4,271	348,487	551,206
Excess (deficiency) of revenues over (under) expenditures	416,968	65,261	(194,730)	287,499
Other financing uses:				
Operating transfers in	-	-	81	81
Operating transfers out	(253,405)	(14,409)	-	(267,814)
Total other financing sources(uses)	(253,405)	(14,409)	81	(267,733)
Deficiency of revenues under expenditures and other financing uses	163,563	50,852	(194,649)	19,766
Fund balances beginning of year	461,848	(28,616)	-	433,232
Fund balances end of year	\$ 625,411	22,236	(194,649)	452,998

See accompanying independent auditor's report.

Mount Ayr Community School District
Combining Statement of Net Assets
Proprietary Funds
June 30, 2012

	Business Type Activities			Governmental Activities
	Non-major Enterprise Funds			Internal Service Funds
	School Nutrition	Student Construction	Total	Flexible Benefits
Assets				
Current assets:				
Cash and investments	\$ 35,615	3,453	39,068	45
Intergovernmental accounts receivable	4,287		4,287	
Inventories	19,300	-	19,300	-
Total current assets	59,202	3,453	62,655	45
Non-current assets:				
Property and equipment:				
Machinery and equipment	291,117	-	291,117	-
Accumulated depreciation	(243,342)	-	(243,342)	-
Total non-current assets	47,775	-	47,775	-
Total assets	\$ 106,977	3,453	110,430	45
Liabilities				
Current liabilities:				
Accounts payable	\$ 4,602	-	4,602	-
Salaries and benefits payable	30,199	-	30,199	-
Total current liabilities	34,801	-	34,801	-
Total liabilities	34,801	-	34,801	-
Net Assets				
Invested in capital assets, net of related debt	47,775	-	47,775	-
Unrestricted	24,401	3,453	27,854	45
Total net assets	72,176	3,453	75,629	45
Total liabilities and net assets	\$ 106,977	3,453	110,430	45

See accompanying independent auditor's report.

Schedule 6

Mount Ayr Community School District
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
June 30, 2012

	Business Type Activities			Governmental Activities
	Non-major Enterprise Funds			Internal Service Funds
	School Nutrition	Student Construction	Total	Flexible Benefits
Operating revenues:				
Local sources:				
Other local sources:				
Food service sales	\$ 168,065	-	168,065	-
Other operating revenues	3,906	-	3,906	-
Total operating revenues	171,971	-	171,971	-
Operating expenses:				
Instructional programs:				
Support services:				
Instructional staff:				
Supplies	-	-	-	221
Administration				
Services	-	-	-	987
	-	-	-	1,208
Non-instructional programs:				
Food services operations:				
Salaries	159,768	-	159,768	-
Benefits	32,281	-	32,281	-
Services	7,569	-	7,569	-
Supplies	220,309	-	220,309	-
Depreciation	2,398	-	2,398	-
	422,325	-	422,325	-
Total operating expenses	422,325	-	422,325	1,208
Operating loss	(250,354)	-	(250,354)	(1,208)
Non-operating revenues:				
Contributions	-	-	-	-
State lunch and breakfast program claims	3,768	-	3,768	-
National School Lunch Program	138,770	-	138,770	-
School Breakfast Program	57,358	-	57,358	-
Food distribution	29,487	-	29,487	-
Total non-operating revenues	229,383	-	229,383	-
Net income (loss)	(20,971)	-	(20,971)	(1,208)
Net assets beginning of year	93,147	3,453	96,600	1,253
Net assets end of year	\$ 72,176	3,453	75,629	45

See accompanying independent auditor's report.

Mount Ayr Community School District
Combining Statement of Cash Flows
Proprietary Funds
June 30, 2012

	Business Type Activities			Governmental Activities
	Non-major Enterprise Funds			Internal Service Funds
	School Nutrition	Student Construction	Total	Flexible Benefits
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 163,778	-	163,778	-
Cash received from other operating activities	3,906		3,906	-
Cash payments to employees for services	(166,682)	-	(166,682)	-
Cash payments to suppliers for goods or services	(214,276)	-	(214,276)	(1,398)
Net cash provided (used) by operating activities	(213,274)	-	(213,274)	(1,398)
Cash flows from non-capital financing activities:				
Contributions - operating	-	-	-	-
State grants received	3,768	-	3,768	-
Federal grants received	196,128	-	196,128	-
Net cash provided by non-capital financing activities	199,896	-	199,896	-
Cash flows from capital and related financing activities:				
Acquisition of capital assets	-	-	-	-
Net cash provided by capital and related financing activities	-	-	-	-
Net increase in cash and cash equivalents	(13,378)	-	(13,378)	(1,398)
Cash and cash equivalents at beginning of year	48,993	3,453	52,446	1,443
Cash and cash equivalents at end of year	\$ 35,615	3,453	39,068	45
Reconciliation of operating loss to net cash provided (used) by operating activities:				
Operating loss	\$ (250,354)	-	(250,354)	(1,208)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Commodities used	29,487	-	29,487	-
(Increase) in accounts receivable	(4,287)		(4,287)	
Depreciation	2,398	-	2,398	-
Decrease in inventories	3,591	-	3,591	-
Increase (Decrease) in accounts payable	(19,476)	-	(19,476)	(190)
Increase in salaries and benefits payable	25,367	-	25,367	-
Increase in postemployment benefits	-	-	-	-
Net cash provided (used) by operating activities	\$ (213,274)	-	(213,274)	(1,398)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:				
Current assets:				
Cash	\$ 35,615	3,453	39,068	45
Cash and cash equivalents at year end	\$ 35,615	3,453	39,068	45

Non-cash investing, capital and financing activities:

During the year ended June 30, 2012, the District received federal commodities valued at \$29,487.

See accompanying independent auditor's report.

Schedule 8

Mount Ayr Community School District
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year ended June 30, 2012

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Adult Education	\$ 3,040	491	-	3,531
Alternative School	141	-	-	141
Art Club	109	-	-	109
Athletics:				
Football	11,376	89,494	99,517	1,353
Volleyball	1,570	1,678	2,480	768
Wrestling	2,859	7,810	10,945	(276)
Boys' basketball	(562)	7,861	6,848	451
Girls' basketball	8,970	4,544	5,132	8,382
Boys' track	964	8,828	10,652	(860)
Girls' track	1,097	2,024	3,030	91
Cross Country resale	210	252	267	195
Golf	592	4,142	3,446	1,288
Baseball	997	1,888	1,762	1,123
Softball	240	2,309	2,310	239
Bowling	5	290	257	38
General Athletics	14,251	72,192	59,716	26,727
Ayrian	6,067	8,605	9,367	5,305
Band	988	3,950	3,895	1,043
Character Counts	175	-	83	92
Cheerleaders	859	2,939	3,138	660
Class:				
Senior	2,688	4,976	6,924	740
Junior	3,379	7,237	7,318	3,298
Sophomore	2,511	3,142	2,511	3,142
Freshman	2,400	1,987	2,400	1,987
Concessions	12,196	39,451	42,972	8,675
Drama Club	111	8,257	7,274	1,094
Drill Team	5,618	10,164	12,830	2,952
Elementary Activities	10,074	13,878	22,357	1,595
Elementary Library	2,117	-	190	1,927
Elementary Student Council	2,655	-	-	2,655
Elementary Yearbook	443	-	-	443
Future Consumer Comm Leadersip Assoc	1,204	132	253	1,083
Future Farmers of America	12,095	38,184	36,545	13,734
Future Teachers Association	2,399	-	-	2,399
Gifts/Memorials	6,812	2,969	910	8,871
Industrial Arts	(454)	1,475	1,428	(407)
Middle School	3,974	1,663	1,987	3,650
Library Club	355	-	-	355
Pep Club	1,165	-	-	1,165
Resale	2,499	545	561	2,483
S.A.D.D.	691	-	-	691
Science Club	259	-	-	259
Talented and Gifted Club	1,689	-	-	1,689

Schedule 8

Mount Ayr Community School District
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year ended June 30, 2012

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Spanish Club	1,382	-	10	1,372
Special Olympics	13	1,009	187	835
Speech	(316)	1,483	2,076	(909)
Student Council	683	646	598	731
Student Activity/vending	3,183	709	1,342	2,550
Tech Club	-	346	474	(128)
Vocal music	2,238	549	903	1,884
Weightlifting	2,247	1,642	1,451	2,438
Total	\$ 140,258	359,741	376,346	123,653

See accompanying independent auditor's report.

Mount Ayr Community School District
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Ten Years

	Modified Accrual Basis									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Revenues:										
Local sources:										
Local tax	\$ 4,153,059	3,773,074	3,696,028	3,753,308	3,250,186	2,767,016	2,572,488	2,451,825	2,376,629	2,377,295
Tuition	409,907	351,984	383,168	406,661	556,040	608,610	529,221	423,715	468,609	545,882
Other	533,259	646,502	640,009	1,222,713	600,441	539,291	452,485	456,198	367,281	450,124
Intermediate sources	98,520	22,688	30,171	28,627	33,771	16,026	9,184	11,461	19,491	23,885
State sources	3,372,499	3,254,842	2,876,171	3,401,412	3,328,660	3,115,847	3,178,765	3,108,574	3,374,553	3,335,123
Federal sources	601,384	1,128,122	846,533	438,928	374,159	345,295	357,147	283,269	271,334	260,386
Total	\$ 9,168,628	9,177,212	8,472,080	9,251,649	8,143,257	7,392,085	7,099,290	6,735,042	6,877,897	6,992,695
Expenditures:										
Instruction:										
Regular	\$ 2,476,134	2,554,927	2,298,973	2,705,269	2,561,874	2,441,247	2,252,637	2,263,656	2,383,276	2,195,590
Special	1,225,910	1,247,088	1,282,803	1,316,604	1,101,386	1,229,717	1,359,199	1,317,696	1,271,789	1,330,654
Other	1,102,162	1,145,246	1,305,973	1,182,923	991,338	931,330	973,588	779,600	758,563	717,350
Support services:										
Student	253,410	174,013	214,196	208,071	179,619	185,798	206,175	174,313	148,048	142,481
Instructional staff	429,304	282,402	269,110	349,186	289,891	289,064	304,577	320,562	203,150	256,930
Administration	727,778	706,870	780,963	815,824	835,415	866,402	825,682	760,148	631,628	610,999
Operation and maintenance of plant	654,235	681,633	631,017	630,818	651,021	556,011	573,287	580,080	451,782	490,606
Transportation	418,737	491,031	370,842	481,274	445,958	503,431	425,201	318,102	288,136	268,432
Central support	-	-	-	-	-	-	-	65,926	54,662	95,673
Other support	-	-	-	-	-	-	-	-	8,845	-
Other expenditures:										
Facilities acquisition	545,317	1,319,845	5,307,406	3,826,197	504,012	101,995	223,998	367,132	145,579	5,158
Long-term debt:										
Principal	409,071	412,161	375,902	244,702	23,558	22,467	46,419	43,833	41,363	204,463
Interest and other charges	367,544	384,614	411,004	292,306	48,860	6,351	7,392	9,978	12,448	18,409
AEA flowthrough	233,293	268,451	267,205	248,593	236,762	228,129	222,117	218,935	228,706	246,674
Total	\$ 8,842,895	9,668,281	13,515,394	12,301,767	7,869,694	7,361,942	7,420,272	7,219,961	6,627,975	6,583,419

See accompanying independent auditor's report.

Mount Ayr Community School District
Schedule of Expenditures of Federal Awards
Year ended June 30, 2012

Grantor/Program	CFDA Number	Grant Number	Expenditures
Direct:			
U.S. Department of Agriculture: Community Facilities Loans and Grants	10.766	FY 12	\$ 4,330
U.S. Department of Homeland Security: Hazard Mitigation Grants	97.039	FY 12	131,848
Indirect:			
U.S. Department of Agriculture: Iowa Department of Education: School Nutrition Cluster Programs: School Breakfast Program	10.553	FY 12	57,358
National School Lunch Program	10.555	FY 12	168,257
			225,615
U.S. Department of Education: Iowa Department of Education: Title I, Part A Cluster: Title I Grants to Local Educational Agencies	84.010	FY 12	182,277
ARRA - Title I Grants to Local Education Agencies, Recovery Act	84.389	FY 12	8,300
			190,577
Vocational Education - Basic Grants to States	84.048	FY 12	11,552
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	FY 12	34,721
Special Education - State Program Improvement Grants for Children with Disabilities	84.323	FY 12	6,187
Rural Education Achievement Program	84.358	FY 12	11,246
Title IIA - Federal Teacher Quality Program	84.367	FY 12	35,844
Grants for State Assessments	84.369	FY 12	3,868
ARRA - Education Jobs Fund	84.410	FY 12	1,927
Heartland Area Education Agency Special Education Cluster (IDEA): Special Education - Grants to States	84.027	FY 12	31,572
Total			\$ 689,287

See accompanying independent auditor's report.

Mount Ayr Community School District
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the Mount Ayr Community School District for the year ended June 30, 2012. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies is included in the schedule. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of states, Local Governments and Nonprofit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Significant Accounting Policies

For governmental funds, in accordance with the modified accrual basis of accounting, revenue from federal grants is recognized when they become both measureable and available. For proprietary funds, in accordance with the accrued basis of accounting, revenues from federal grants are recognized in the period they are earned. Expenditures of federal awards are recognized in the accounting period when the liability is incurred.

Note 3. Noncash Assistance

The schedule includes federal awards in the form of noncash assistance (commodities) received during the year in the amount of \$29,487 related to USDA Commodities grants provided by the U.S. Department of Agriculture passed through the Iowa Department of Education, CFDA No. 10.555.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of Mount Ayr Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Mount Ayr Community School District, Mount Ayr, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 7, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Mount Ayr Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Mount Ayr Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mount Ayr Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mount Ayr Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-12 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mount Ayr Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Mount Ayr Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Mount Ayr Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Mount Ayr Community School District and other parties to whom Mount Ayr Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Mount Ayr Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

January 7, 2013

**Independent Auditor's Report on Compliance with Requirements That
Could Have a Direct and Material Effect on Each Major Program and on
Internal Control over Compliance in Accordance with OMB Circular A-133**

To the Board of Education of Mount Ayr Community School District:

Compliance

We have audited Mount Ayr Community School District's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Mount Ayr Community School District's major federal programs for the year ended June 30, 2012. Mount Ayr Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Mount Ayr Community School District's management. Our responsibility is to express an opinion on Mount Ayr Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mount Ayr Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Mount Ayr Community School District's compliance with those requirements.

In our opinion, Mount Ayr Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of Mount Ayr Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Mount Ayr Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mount Ayr Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-12 to be a material weakness.

Mount Ayr Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Mount Ayr Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Mount Ayr Community School District and other parties to whom Mount Ayr Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

January 7, 2013

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 97.039 – Hazard Mitigation Grants
 - Clustered programs:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - Clustered programs:
 - CFDA Number 84.010 – Title I Grants to Local Educational Agencies
 - CFDA Number 84.389 – ARRA – Title I Grants to Local Education Agencies, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Mount Ayr Community School District did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

- II-A-12 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, expenditures are recorded and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2012
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 10.766: Community Facilities Loans and Grants
Federal Award Year: 2012
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
CFDA Number 84.389: ARRA – Title I Grants to Local Education Agencies, Recovery Act
Federal Award Year: 2012
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-12 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, expenditures are recorded and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget - Expenditures for the year ended June 30, 2012, exceeded the certified budget amounts in the non-instructional and other expenditures functional area.

Recommendation – The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response – Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion – Response accepted.

IV-B-12 Questionable Expenditures - No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Mount Ayr Community School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

- IV-C-12 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-12 Business Transactions - No business transactions were noted between the District and District officials or employees.
- IV-E-12 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- IV-F-12 Board Minutes - No transactions were noted requiring Board approval which had not been approved by the Board.
- IV-G-12 Certified Enrollment - A variance in the basic enrollment data certified to the Department of Education was noted.
- Recommendation – The certified enrollment data should be corrected for students who exit the District.
- Response – We will correct the certified enrollment in the future for students exiting the system.
- Conclusion – Response accepted.
- IV-H-12 Supplementary Weighting – No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- IV-I-12 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.
- IV-J-12 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- IV-K-12 Sale of Property - During the year ended June 30, 2012, the District made sales of property in accordance with Chapter 297.22 of the Code of Iowa.
- IV-L-12 Categorical Funding – No instances were noted of categorical funding used to supplant rather than supplement other funds.
- IV-M-12 Deficit Balances – The Debt Service Fund, Capital Projects Fund-Other Capital Projects Account, and five student activity accounts had deficit balances at June 30, 2012.
- Recommendation – The District should continue to investigate alternatives to eliminate these deficits in order to return funds/accounts to a sound financial condition.
- Response – The District is continuing to investigate alternatives to eliminate these deficit balances.
- Conclusion – Response accepted.

Mount Ayr Community School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

IV-N-12 Statewide Sales, Services and Use Tax – No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2012, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$	455,959
Revenues/transfers in:			
Sales tax revenues	\$	539,660	
Other local revenues		53	
Intermediate sources of revenues		75,703	615,416
			<u>1,071,375</u>
Expenditures/transfers out:			
School infrastructure construction		192,559	
Transfers to other funds:			
Debt service funds		253,405	445,964
			<u>445,964</u>
Ending balance		\$	<u>625,411</u>

For the year ended June 30, 2012, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa

	Rate of Levy Reduction Per \$1,000 of Taxable Property Tax Valuation Dollars Reduced	
Debt service levy	\$	2.31336 495,640